Firstlinks
a Morningstar company

Edition 673, 31 July 2026

Contents

Editorial

Simonelle is on leave and Mark LaMonica is filling in with the editor's note this week.

He wears a mask and his face grows to fit it

There are few better lines in literature.

And while there are several ways to interpret Orwell's poignant observation is his essay *Shooting an Elephant*, its meaning to me is clear. The constructs that guide the roles we play in life eventually become who we are.

I was thinking about this line when I was reading an interview with a portfolio manager for a dividend fund in the US. The second largest position in the dividend fund she managed was Amazon – a share that has never paid a dividend.

The rationale for this seeming deviation from common sense is illustrative of a type of thinking that bedevils professional and individual investors.

As the portfolio manager explained, her dividend fund is benchmarked against the Russell 1000 Value Index. The index currently has a 20% weighting to technology shares.

The technology allocation has doubled in the last year as more tech shares have joined the index – shares like Amazon.

In an investment world where performance against an index is paramount this means that even a dividend fund manager believes she needs to hold non-dividend paying shares to keep up with the benchmark.

Does it matter that nobody invests in a dividend fund to own non-dividend paying shares?

Apparently not.

Does the benchmark return align with the goals of any of the investors in the fund?

Unlikely.

The constructs that guide the thinking in the investment world can bear little resemblance to the whole point of investing in the first place.

The problem…is us

Before mocking the structurally influenced decision-making of professional investors it is worth examining why they behave this way.

French philosopher Joseph de Maistre wrote that every nation gets the government it deserves. And we are getting the professional investors we deserve.

Fund managers are fixated on keeping up with indexes because individual investors chase short-term performance and punish any shortfall.

The downside of underperforming in the short-term is much greater than the upside from outperforming over the long-term.

This perverse incentive structure is our fault.

We can't seem to help ourselves. We don't bother to define our goals but somehow think we will reach them. We quote Buffett while attempting to day trade our way to riches.

The personal investment decisions each of us make can do little to change the overall industry – but we can improve our own outcomes. A reminder of three ways investors often self-sabotage.

Defining success by someone else's terms

Orwell was a minor colonial official in Burma. And what set Orwell apart from many of the other cogs in the imperialistic system was his self-awareness.

Orwell could see the downside to colonialism extended far beyond the people being colonised. He could see the 'success' of the system was backfiring against those imposing it.

As Orwell put it, w*hen the white man turns tyrant, it is his own freedom he destroys.*

This is in no way comparing colonialism to investing. Yet throughout life the way success is defined matters. And professionals aren't the only investors fixated on indexes.

Just like the dividend fund the indexes many individuals use to measure success often have little relation to what we want out of life.

There are several ways comparing returns to an index can push investors in the wrong direction.

It could be comparing a diversified portfolio to a narrow index. The comparisons might be over short – and therefore meaningless - time periods. Survivorship or hindsight bias may distort the relevance of these so-called benchmarks.

Despite the constant feedback loop of prices and the numerous ways to judge performance, investing isn't a competition. The purpose of investing is to help you get what you want out of life.

For some investors that may be the peace of mind that comes from holding more cash than advisable for a portfolio optimised for the highest possible returns.

For some it is generating steady and stable income by holding shares that pay dividends even if they fall behind in a bull market.

For others it is accepting the simple truth that the more money you have in relation to your needs the less risk you need to take.

None of this is easy. I've struggled to separate avarice from ambition and to stop viewing any departure from wealth maximisation as a character flaw.

Yet as I've grown older I've come to accept the only way to get satisfaction out of life is to define success in your own way. Don't forget that investing is simply a means to an end.

Your portfolio and your life are linked

A crazed elephant showed up in the Burmese village Orwell oversaw.

Orwell was a sub-divisional police officer. It was his job to investigate but what seemed clear at the outset became muddled as he got closer.

A story always sounds clear enough at a distance, but the nearer you get to the scene of events the vaguer it becomes.

Most professional investors know little about the end investors. This asymmetrical relationship enables risk to be defined in peculiar ways. It enables a detached view of investing – afterall, it isn't their money.

A dizzying array of metrics are bandied about – the Sharpe Ratio, standard deviation, beta, the Sortino Ratio. Portfolios are minutely adjusted to stay perched on the precipice of the mythical efficient frontier.

These risk measures have a role to play but they are often disconnected from how most individuals experience risk in their lives. The risk we face is measured in trips not taken, loved ones not helped, anxiety not relieved - our risk is missing out on our hopes and dreams for the future.

Trying to live up to a false narrative of sophistication

When it was clear the elephant was a danger Orwell knew he had to do what was expected of him by the villagers. They were all playing roles in the farcical colonial system.

As he wrote, *to be a sahbib, you have to act like a sahib*. Orwell didn't want to shoot the elephant. But he knew his role was to shoot the elephant.

Many individual investors follow a false narrative of what it means to be a successful investor.

Investors are conditioned to believe each market environment can be exploited. There is a natural inclination to follow sophisticated sounding professionals.

Combine this with our natural action bias and you have a formula for overtrading and poor outcomes.

Some do this out of ignorance. But many people know that most professional investors underperform – yet still copy their approach.

There are no extra points for having the most complex portfolio. To sound sophisticated requires constantly having an opinion on the best course of action. Building long-term wealth often means doing nothing.

I don't rotate my portfolio. I don't look for catalysts. I'm not making tactical asset allocation decisions. At best I rebalance when things get extreme while trying to keep my investment strategy as simple as possible.

Maybe I'm not the most sophisticated investor. I've made peace with that but I do have occasional moments of self-doubt and question my choices. Should I make more of a concerted effort to capitalise on every potential opportunity? Should I take on more risk?

These thoughts are generally fleeting and I go back and focus on the little things like growing my passive income, minimising taxes and fees, and saving money. That is what ultimately pays off.

Final thoughts

The constraints on individual investors are self-applied. The benchmarks are artificial. Many individual investors end up wearing a mask that isn't meant for them.

Our biggest advantage is we don't face the same challenges as professional investors.

We have no fickle investors to worry about.

We don't have to explain each of our positions to our boss during an annual review.

We have no incentives to index hug, participate in group think or focus on the short-term.

Everyone internalises incentives and norms. Gradually they shape our behaviour and identity. For many professional investors the influence is structural and difficult to resist. Individuals have far greater freedom which we often surrender willingly.

Think clearly about what is important to you and the best way to get it.

Mark LaMonica

Also in this week's edition...

UniSuper CIO **John Pearce** shares his perspective on FY26 and what is ahead for investors.

Many investors are still suffering from the post budget blues. **Joshua Derrington** argues that the response from many wealthy people isn't the right one.

Value investing has fallen out of favour but **Anton Tagliaferro** and **Simon Conn** argue that the current market is ripe with opportunities.

Most of us are aware global diversification is needed given the concentration in our local market. **Jarrad Stuart** opines on the right way to do it

Saokai Fan outlines how macro forces are shaping the market for gold.

We could all use some positivity and **Anthony Doyle** outlines why you shouldn't count Australia out.

Curated by Simonelle Mody and Leisa Bell

UniSuper CIO shares his reflections on the 2025-2026 financial year

John Pearce

Financial markets spent much of the 2026 financial year climbing a wall of worry that, at times, resembled a cliff face. In February 2026, Israel and the United States launched strikes on Iranian nuclear facilities, resulting in a spike in oil prices and a sharp sell-off in global share markets. However, as is the case with most geo-political shocks, markets quickly shrugged this one off. The more enduring narrative of the year was the AI supercycle, the impact of which largely determined the market's winners and losers. Without an AI story, the ASX200 returned a modest 6.1% for the year, underperforming the global index by around 10%. Unfortunately, it's becoming a familiar story: UniSuper's International Shares option has outperformed the Australian Shares option in eight of the last 10 years.

Pleasingly, all of UniSuper's investment options ended the financial year in positive territory. Our default Balanced option delivered 10.4% for accumulation members and 11.2% for pension members, the latter result representing the fourth consecutive year of double-digit returns.

As is customary, we reflect on the year's best and worst performing assets. With funds under management now approaching $175 billion, our significant holdings tend to be concentrated in very large companies. Accordingly, this review focuses on investments in which we hold more than $1 billion.[#]

Best performing companies (major holdings)

Alphabet

A year ago, Alphabet ranked among our worst-performing holdings as investors questioned whether AI would erode Google's dominance in search. Twelve months on, that narrative has reversed entirely: the stock returned 93% and became our best-performing position. What changed was Alphabet's transition from perceived AI loser to AI winner. The company has built a compelling end-to-end AI stack, spanning its own custom microchips, large language models (Gemini), and infrastructure through Google Cloud, which has emerged as a major beneficiary of surging enterprise AI spending. Despite this exceptional run in the share price, the stock continues to trade broadly in line with its historical average valuation, leaving us comfortable with our position.

BHP

BHP delivered a standout 68% total for the year, knocking CBA off its perch to reclaim the title of Australia's largest company. It's been a rollercoaster ride for the Big Australian; a top performer in FY23, our worst in FY24, and now back in favour as one of our best. While people tend to think of BHP as an iron ore story, more than half the company's profits now derive from copper. Copper prices are surging, driven by tight supplies, accelerating demand from electrification, and power needs of the data centre build out.

Despite the impressive recent share price performance, at current prices BHP still looks attractively priced in our view.

Apple

Long regarded as the laggard of the AI race, Apple returned almost 35% to take third place among our best performers. Sentiment shifted as investors warmed to the view that Apple can layer AI across its 2.5 billion-odd devices without the eye-watering spending shouldered by rivals such as Microsoft and Google. Demand for the iPhone 17 outstripped supply, revenue from Apple services set fresh records, and a new US$100 billion buyback added support. At the company's June developer conference, an overhauled Siri—for years the punchline of Apple's AI efforts—finally looked the part. The shares are not cheap, but few companies generate cash like Apple, so we remain comfortable holding.

Spare a thought for John Ternus who has the enormous challenge of filling Tim Cook's shoes as the next CEO of Apple. Cook of course, had the seemingly impossible task of filling what many consider to be the biggest shoes in corporate history: those belonging to Steve Jobs. Cook has done a magnificent job.

Worst performing companies (major holdings)

CSL

CSL has followed a bad FY25 (-18%) with a horrendous FY26 (-51%). To be blunt, in a relatively short period, CSL has gone from a market darling to a dog. While some headwinds are structural and (arguably) beyond the company's control, there have also been own-goals—chief among them the acquisition of Vifor, which has proved a costly misstep. Profit downgrades have been a recurring theme. CSL peaked at around $340 and, at time of writing, has fallen to $125. We expect it to find support around these levels. However, we offered a similar view in last year's report, and we were wrong.

Chairman Brian McNamee's stellar record as CSL's former CEO is increasingly overshadowed by his lacklustre record as Chairman. He is due for re-election in October 2027, although the expectation is that he will step down sooner. It's time to go.

Microsoft

Software and cloud heavyweight Microsoft returned a disappointing -28%, and not because the underlying business faltered. Revenue grew in the high teens all year, profits by as much as 25%, and Azure kept expanding at close to 40% year on year. What unsettled investors was the bill for artificial intelligence: Microsoft is spending heavily on the data centres underpinning the AI boom, with capital expenditure up and free cash flow down, and the market lost patience waiting for a return on those investments. Microsoft also has a sizeable applications business, such as Microsoft Office, that AI itself could disrupt. We think the pessimism is overdone. We can see a path where the smart integration of AI can further entrench Microsoft's control of the office workstation.

So there you have it: three of the world's greatest technology companies, all exposed to the same AI super cycle, yet delivering vastly different returns. Alphabet was rewarded for proving it could compete at the frontier. Apple was rewarded for the opposite reason: restraint, and an installed base large enough to monetise AI without matching its rival's capital expenditure. Microsoft was punished despite arguably doing everything right on the business side simply because the market has, for now, lost patience with the size of the investment required to remain in the AI race. The AI story has a long way to run, but the market is already picking winners and losers. Don't be surprised if opinions are reversed by the next time we report.

Best performing option

International Shares topped the table with a 19.6% return for pension members and 17.9% for accumulation members, the fourth consecutive year of healthy double-digit returns. Unsurprisingly, the strong run coincided with the advent of the AI supercycle. The explosion in demand for AI models has fuelled an explosion in demand for power, memory, chips, and datacentres—and that's just the first order impact. The second order story relates to demand for a vast range of inputs including commodities, critical minerals, cooling technology, and a whole range of services. The tech tide is lifting all boats and the countries best placed (US, Japan, Korea, and Taiwan) are enjoying healthy market returns. With around 65% of the option invested in the US and around 35% invested in the tech sector, the portfolio remains exposed to the same drivers that has underpinned its recent success. Of course, that also means it is exposed to a correction at some point. We just don't know when.

Worst performing option

The Australian Bond option struggled in FY26, returning just 1.2%. Over the past financial year, the 10-year Australian Government bond yield rose from 4.16% to 4.72%, a significant move as rising inflation concerns prompted the RBA to reverse course and hike rates three times after a period of cuts. Rising yields equate to falling bond prices, and those losses more than offset the modest income the bonds generated during the year.

The silver lining is that the Australian Bond option now carries a higher prospective running yield than it did a year ago, which should support better returns ahead—assuming yields don't rise further. The challenge, as always, lies in predicting where inflation and central bank policy head from here. That remains a toss-of-the-coin.

Watch John Pearce's latest video.

[#] All returns quoted include dividends. The Defined Benefit (DB) is excluded from the discussion as movements in share prices impact the DB portfolio returns but do not affect members' balances given the (formula-driven) way in which benefits are determined.

John Pearce is Chief Investment Officer at UniSuper, a sponsor of Firstlinks. This article provides general information and may include general advice. It doesn't take into account your financial situation, needs or objectives. Consider your situation before making financial decisions, because we haven't, as well as the PDS and TMD relevant to you at unisuper.com.au/pds, and whether to consult a qualified financial adviser. Past performance isn't an indicator of future performance.

For more articles and papers from UniSuper, click here.

Post-Budget blues? A knee jerk won't help

Joshua Derrington

The tax changes in May's federal Budget have triggered a familiar reflex among wealthy families and their advisers: how do we reduce some of the pain?

There is a fair bit to weigh up. Division 296 is now law, taxing super balances above $3 million from 1 July 2026. The CGT and negative gearing changes passed in June and are law too, in force from 1 July 2027. The trust reform is still moving, and families aren't necessarily waiting to see how it settles before they act.

When structural change lands at once, the instinct is to restructure – reallocate toward income, rework the trust, shift ownership, and trim exposure to whatever triggers the biggest tax event.

I understand the urge to act quickly, but I'm not convinced an automatic response holds up.

We spend a lot of time with families who ask a hard question of their portfolio: "*am I invested correctly?*" I fear, however, they should be asking a harder version: "*am I building something that can outlast me?*"

For most families restructuring right now, the honest answer is no. A smaller tax bill this year says nothing about whether the portfolio can still do its job in 2046. Before restructuring because of the Budget, sit with these five questions first.

Does the new allocation still earn what's needed?

Gregory Clark, the University of California, Davis economist behind *The Son Also Rises*, tracked English families across more than 400 years and found that wealth and status hold on far longer than most people expect. What rarely holds on is the money itself. Fortunes get divided, spent and diluted, and by the time you reach the great-grandchildren the size of the original inheritance barely shows up in the outcome.

Once you allow for a growing family, spending, tax and fees, keeping real wealth intact across generations takes something close to a 9% real return, year after year. That's demanding in any environment, and treasurer Chalmers' Budget makes it even harder. Every dollar lost to CGT timing, and every structure that trades growth for a cleaner tax outcome, pushes the hurdle further away.

A restructure that shaves this year's tax bill but caps the compounding ability of your portfolio is not necessarily a win, in fact it is more likely a short fix way of losing. Before signing off on any change, the family should understand the real return the new structure needs to produce, not just the tax it saves.

What are you giving up to save the tax?

Tax efficiency and portfolio resilience are not the same thing, but the Budget makes it easy to mistake one for the other.

Trusts are the clearest example. In theory, families using them for genuine succession and asset protection should carry on. In practice, once you strip out the income-splitting benefit and add on a flat 30% minimum tax, a lot of the appeal goes, and we expect many families to move toward company structures as the primary holding vehicle.

The detail here is still being written. The trust measure isn't law yet, a second bill is due later this year with the carve-outs, and existing testamentary trusts are already set to be spared. Restructure around a headline now and you risk locking in a structure built for a rule that no longer applies by the time the final detail is legislated.

Bucket companies as a strategy lose most of their appeal too. A corporate beneficiary gets no credit for tax the trust has already paid, creating double taxation of the same income.

None of that is wrong to act on. It is a trade, and the family should be able to say plainly what they're giving up for the perceived benefit.

Is the family taking on more risk than they realise?

Some alternatives on offer look better on paper than in practice.

The new-build property exemption preserves both negative gearing and the 50% discount, arguably the most tax-friendly residential exposure outside super. But a tax break doesn't fix build quality, completion risk, or oversupply in the wrong postcode.

Super has come through the Budget remarkably intact and remains the most lightly taxed structure available. But Division 296 is now a real constraint at the top, and contribution caps and preservation rules mean it can only do so much of the work.

Reallocating growth assets into index-tracking exposure is another common move. It feels simple, liquid, and diversified almost by definition. Though, that assumption deserves scrutiny: passive exposure marketed as diversification is often a concentrated bet in disguise. The ASX 300's top ten now make up around 46% of the index, and the S&P 500's at close to 38%. Concentration risk is real.

If chasing tax efficiency pushes a family further into any of these lanes than they'd otherwise choose, that is a cost, not a long-term strategy.

Is any restructure planned as one whole, or piecemeal?

All families make mistakes. But taking a single decision without looking at the whole picture is one of the best mistakes to avoid.

Take a family holding an asset with a large unrealised gain as the CGT rules change from 1 July 2027. One might realise it beforehand and redeploy. Another might hold and manage around it. Either can be right, but only once CGT timing, Division 296 exposure, drawdown needs and the shape of the wider portfolio are weighed together rather than solved as separate problems. The mistake is rarely which option you pick. It is picking one before you have seen how it moves everything else.

Is it sometimes safer to just absorb the tax?

The conversations we've had since Budget night tell us families are genuinely alarmed, not by any single measure, but by the combined picture. Trusts, CGT, negative gearing, and Division 296 are all moving in the same direction, all between now and 2028.

I don't think the wealthy will panic-sell, but capital that sits, waits, or quietly goes offshore is a real prospect, and so is a portfolio pushed to earn back every dollar of tax saved through a restructure.

A bigger cheque to the ATO is not the scoreboard. Sometimes the pragmatic, less elegant choice, paying tax that a more aggressive restructure might have avoided, is the one that lets families stay invested for the long term, and able to sleep at night.

None of this is an argument against asset restructuring. Some restructures are the right call, regardless of the Federal Budget impact. Maybe the trust needed fixing anyway, or the super settings were never suited to the family in the first place.

The test is whether the decision stands on those grounds, and not because a headline tax saving made one line item of the spreadsheet look better.

Across four centuries of data studied by the industrious Clark, the money itself was never what carried a family from one generation to the next. It was judgement, discipline, and the willingness to keep going when the easy answer was to cash out.

Families that lost everything through war or policy shock often rebuilt within a generation or two, not because they recovered the original capital, but because they'd kept the capability to generate it.

A tax-efficient structure teaches the next generation none of that. It just moves numbers between boxes, while the underlying portfolio quietly becomes less effective at the one job that matters most.

So restructure when the restructure earns its place, not simply because Jim Chalmers gave you a reason to. A smaller tax bill and a portfolio that compounds for decades are not the same thing, and the 2026 Budget is about to make that distinction expensive to get wrong.

Joshua Derrington is the Chief Investment Officer, Alvia Asset Partners, an independent family office investment manager.

Is value investing still relevant in today's stockmarkets?

Anton Tagliaferro, Simon Conn

Throughout our many decades as investors in the sharemarket, we have lived through various periods where people begin to seriously question whether using a value philosophy can still yield good long-term results.

This question generally rears its head when sharemarkets are driven by momentum or themes, and becomes more intense when stockmarkets are racing away or hitting record highs. During these periods, valuations can seem almost irrelevant and are often not allowed to get in the way of a good story.

In a perfect world, every company's share price should track the sum of its long-term discounted cash flows. Of course, in practice, we know that companies' shares can be extremely volatile as investors are influenced by each company announcement as well as the daily news headlines and a barrage of constant information from various sources.

The impact of quant and index funds

Ever-increasing computing power has led to the popularity and proliferation of quant and algorithmic-driven funds which can now process and act on data in a matter of seconds. The vast majority of these quant funds use very short-term momentum indicators as their primary buy/sell signals, which has had an increasingly major impact on share price movements in recent years.

When a stock is in an "upgrade" cycle and near-term consensus earnings estimates are revised up, even by relatively small amounts, most quant funds will invest in and continue to buy a stock, often with very little reference to the underlying valuation of the company.

Similarly, when a company disappoints on the earnings front, even by a small amount relative to consensus, many of these funds will continue to sell the stock down to what can become significantly undervalued levels.

The popularity and huge inflows of money into index funds have also added to the distortion of many share prices, in our view. As quant funds push stock prices to extreme high or low valuations, this clearly has a major impact on the market capitalisation of those companies. This, in turn, affects the index weight of stocks, which then leads index funds to buy or sell a stock because its index weight has changed.

Our view is that the large flows of recent years into both quant funds and index funds have led to huge volatility in many share prices, with any incremental positive or negative news often leading to distortions in the share prices of many companies.

Where does this leave value managers?

The current environment is a challenging one for value managers. Value managers use a range of analytical tools to judge whether a stock price is cheap or not compared to the underlying intrinsic value of the company. These tools include price/NTA, sum of the parts (SOTP), discounted cash flow (DCF) and PE ratios.

It is increasingly relevant to note, however, that the volatility of many share prices can actually create very good opportunities for disciplined value managers. This is because quant funds can push stock prices way above or below their true long-term value based on short-term factors, with index funds then following by buying or selling the stock based on its weighting in the index. This often exacerbates the disconnect between the stock price and the company's underlying value.

How we assess value

At Fundamental, as bottom-up, long-term value managers, we use a range of factors to assess and calculate what we believe to be the underlying value of a company. We then await opportunities as stocks are regularly overbought and oversold, given the mechanics of what is happening in the current stockmarket and the impact of quant and index funds on individual stock prices.

We spend many hours constructing financial models for all the companies in our universe, with AI tools such as Claude by Anthropic making it a lot quicker to download and analyse the past annual reports and results of each company.

Apart from this fundamental analysis, we also spend many hours talking to company management to assess the competence of management and to understand their medium to long-term plans, including how management plans to grow long-term shareholder value. This can range from organic growth to expansion by acquisition.

We also spend many hours talking to competitors, suppliers, ex-employees and customers to collate independent information as to whether what the company is telling investors is in fact being played out in reality.

Having done the research and built an understanding of how the company's management plans to increase shareholder wealth over the medium to long term, it is then a matter of working out a valuation for each company and comparing this to the stock price. We then look to buy stocks where we believe the share price undervalues what the company is truly worth.

By doing thorough research on every stock we select for our portfolio, we are able to understand the drivers behind each company we hold and why we believe the company can perform well in our portfolio.

Why value has its place

While the trend towards investing in index funds, quant funds and ETFs has gained huge momentum in the last few years, we remain firmly of the belief that funds with a strong value bias, such as ours, deserve a place in a diversified portfolio.

There are several reasons for this. Momentum, quant and index-driven markets can push share prices well above or below underlying value, particularly when investors react to short-term earnings upgrades, downgrades or changes in index weight. For disciplined value managers, those distortions can create opportunity.

By doing detailed bottom-up research, assessing management and comparing the market price with long-term intrinsic value, we aim to identify companies where the share price undervalues what the company is truly worth.

A further point to note is that value portfolios can have lower volatility than the broader index over time, thanks mainly to lower downside capture in negative periods, as the stocks held are generally supported by justifiable valuations rather than short-term momentum alone.

In a nutshell, while value portfolios may not always perform as strongly as booming, momentum-driven markets, we firmly believe that over the long term, our value approach can deliver solid returns for investors.

Anton Tagliaferro and Simon Conn are Senior Investment Managers of Fundamental Investment Management, an Australian funds management company focused on active value investing in Australian smaller companies, founded by Anton Tagliaferro in 2026.

How to find opportunity in global equities

Jarrad Stuart

Australians have understandable reasons for favouring domestic shares. Local companies are familiar, dividends can carry franking credits and the market has produced many successful businesses. But familiarity can disguise concentration. At 30 June 2026, MSCI Australia had 40.8% in financials and 24.5% in materials. Nearly two-thirds of the index was therefore tied to two sectors.

By contrast, the MSCI All Country World Index contained 2,461 companies across 23 developed and 24 emerging markets, covering about 85% of the global investable equity opportunity set. This is not an argument against Australian shares. It is an argument against expecting one relatively narrow market to provide every source of growth, innovation and diversification an investor needs.

Global should be structural, not tactical

A global allocation gives investors access to sectors that are scarce in Australia, including semiconductors, software, medical technology, aerospace, luxury goods and industrial automation. It also spreads exposure across different economies, currencies and revenue pools. Currency and geopolitical risks do not disappear, but dependence on the Australian economy, banks and commodity cycle is reduced.

Trying to identify the country that will lead the market next year is rarely a durable strategy. A better starting point is to treat global equities as a long-term portfolio allocation, then search across countries for businesses where quality, price and a catalyst overlap.

Quality is more than a high return on equity

A quality company should pass several connected tests:

It solves an important problem and has an advantage that competitors cannot readily copy, such as intellectual property, network effects, switching costs, scale or trusted distribution.

It converts accounting profit into cash and can reinvest at attractive returns, rather than relying on acquisitions or ever-rising debt.

Its balance sheet can withstand a difficult cycle, while management allocates capital sensibly among investment, acquisitions, dividends, buybacks and debt reduction.

Its incentives are aligned with shareholders and the investment case does not depend on a single optimistic forecast.

The most valuable quality is often the ability to reinvest. A company earning attractive returns today but lacking reinvestment opportunities may be a sound business, yet a slower compounder. Conversely, growth that consumes large amounts of capital or dilutes shareholders can destroy value even when revenue rises quickly.

A good company is not automatically a good investment

Investment success depends not only on what a business becomes, but on what the purchase price already assumes. A wonderful company can disappoint when its valuation requires flawless execution. A merely good company can outperform when expectations are too pessimistic and its economics improve.

Rather than asking whether a share looks cheap against its own history, investors should ask what growth, margins and reinvestment returns are embedded in the price. The thesis should work under a reasonable base case, offer meaningful upside if management executes and preserve capital if events are less favourable. Valuation is not a timing tool, but it determines the margin for error.

A catalyst can turn value into a result

Cheap shares sometimes remain cheap because nothing changes. A credible catalyst gives the market a reason to reassess the company. It may be a new product cycle, margin recovery, balance-sheet repair, an asset sale, a management change or a different approach to capital allocation.

In our research, event-driven situations are especially useful hunting grounds because a defined change can disrupt routine valuation and create a new information set. These situations can include restructurings, asset sales, management changes, balance-sheet repair, index changes or a shift in capital allocation. Temporary uncertainty or forced changes in ownership can create mispricing. However, an event alone does not create value. Investors still need to examine the underlying business, balance sheet, management's ability to execute and the downside if the expected change is delayed or fails to occur.

Before buying, it helps to write the thesis in plain language, identify two or three operating measures that must improve and specify what evidence would disprove the case. A successful investment process needs an explicit sell discipline as much as an attractive entry point.

Where quality and value overlap

The United States remains the deepest market for technology, healthcare and specialised industrial companies, but it is not uniformly attractive. At 30 June, the MSCI USA Index traded at 21.0 times forward earnings, compared with 15.6 times for the MSCI World ex USA Index. That gap is not a forecast that America must underperform. It simply means expectations are higher and selectivity matters. Opportunities exist beyond the largest technology platforms in the infrastructure enabling computing and electrification, specialised healthcare and companies undergoing credible strategic change.

Japan offers precision manufacturing, automation, semiconductor equipment and strong consumer franchises. Corporate reform is also a genuine catalyst. The Tokyo Stock Exchange's updated 2026 initiative continues to press listed companies to focus on cost of capital and the appropriate allocation of resources. Reform can unlock value through better disclosure, asset sales and capital returns, although it is not a substitute for a sound business.

Europe contains world-class aerospace, industrial automation, testing, healthcare and semiconductor businesses, often with global revenues. Emerging Asia offers critical parts of the semiconductor and electronics supply chain. Both regions can provide lower starting valuations than the most crowded US shares, but investors must allow for cyclical earnings, governance, regulation and geopolitical risk. The best opportunity is usually a company with global economics and a locally overlooked valuation, not a blanket bet on a flag.

How fund managers can fit

A low-cost global index fund is a rational core holding for many investors. An active manager should have a clear job around that core: finding less-researched companies and corporate events, reducing exposure to expensive index concentrations, or pursuing a genuinely differentiated style. A manager who simply owns the same dominant companies as the index needs to justify the additional fee.

Manager selection should focus on whether the edge is understandable and repeatable, how the portfolio differs from its benchmark, the sources of risk, capacity, fees and the strength of the operating platform. Recent performance alone is insufficient. A concentrated or emerging manager may be best sized as a satellite while its longer-term record and business resilience develop. A diversified manager with an established process may play a larger role. The allocation should reflect the job the manager performs and the risk it adds to the whole portfolio.

Familiarity is not diversification

Global equities deserve to be a mainstay because the opportunity set is global, not because Australia must underperform in any particular year. The discipline is to combine business quality with a sensible price and a reason for expectations to change. Geography shapes the risks, but it should not replace company analysis. Over a decade, the greater danger is not missing next year's winning country. It is allowing familiarity to determine the portfolio.

Jarrad Stuart is Portfolio Manager at Sharpbridge Funds Management, a Brisbane-based global equities boutique. The material in this article is general information only and does not take into account any person's objectives, financial situation or needs.

What keeps the world's most patient investors returning to gold

Shaokai Fan

Markets are constantly trying to anticipate what comes next. Reserve managers at central banks, by contrast, spend far more time thinking about the forces that could reshape the global financial system over the next decade and beyond.

Regardless of timeframe, all investors are navigating a changing investment environment. Assumptions that underpinned portfolio construction for much of the past three decades; stable inflation, deepening globalisation, low government debt and reliable diversification from government bonds, are being challenged. Inflation has become more persistent. Fiscal deficits have expanded. Geopolitical fragmentation has intensified. Traditional relationships between major asset classes have become less predictable.

Against that backdrop, the question is becoming less about which asset performs best in the next six or twelve months, and more about which assets can help portfolios remain resilient across a much wider range of possible outcomes.

Gold sits at the centre of that discussion. Not just because it has performed strongly in recent years, but because it possesses characteristics that are increasingly difficult to replicate elsewhere. Put simply, gold is valued not just for what it is, but also for what it is not: it is no one's liability, no government's promise, and no country's currency.

A different way of thinking

The World Gold Council's latest Central Bank Gold Reserves Survey provides an important insight into how reserve managers are viewing gold within the changing landscape.

Almost half (45%) expect to increase their own gold holdings over the next twelve months and nearly nine in ten (89%) expect total global central bank gold holdings to continue rising. They cite gold's performance during crises, its long-term store of value and its diversification benefits as the primary reasons for holding it. They also place less weight in holding gold as a historical legacy, inherited from prior monetary regimes. Gold is increasingly being viewed not as an inherited reserve asset, but as a deliberate strategic allocation.

Equally revealing is what they expect to happen elsewhere. Nearly three-quarters (74%) believe the US dollar's share of global reserves will decline over the next five years, over which time, more than four in five (83%) believe gold will account for a larger share of global reserves over the next five years.

This should not be interpreted as a prediction of the end of the US dollar. Rather, it reflects an effort among central banks to build more balanced reserve portfolios in a world where economic power, trade relationships and geopolitical risks are becoming more diffuse.

Understanding what makes gold different

Understanding why reserve managers continue to allocate to gold requires understanding what makes it fundamentally different from most financial assets.

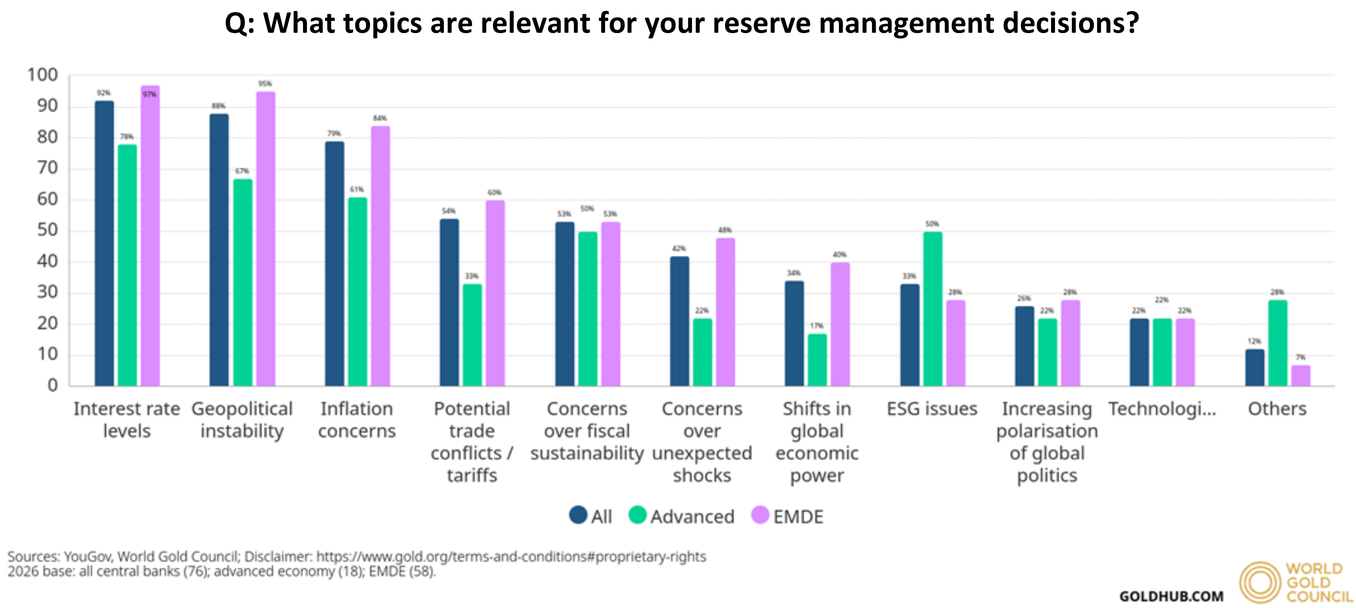
Unlike equities or bonds, gold generates no earnings, dividends or coupons. Traditional discounted cash-flow models therefore have limited relevance. But this is also one of gold's defining strengths. Without an issuer, gold carries no credit risk and no counterparty exposure.

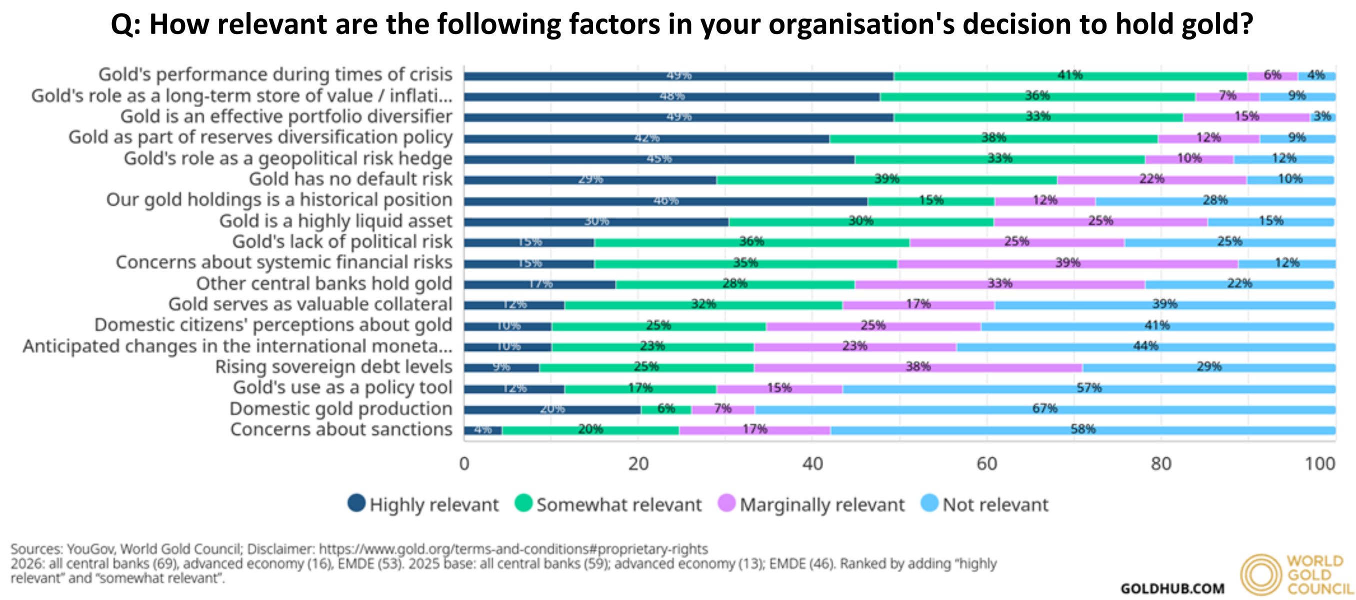
Its value is driven instead by a remarkably diverse set of demand sources: jewellery, technology, retail investment, institutional investment and central bank purchases.

This diversity gives gold what we often describe as its "dual nature".

During periods of economic expansion, rising incomes typically support jewellery demand and long-term household savings, particularly across Asia. During periods of uncertainty, investment demand tends to strengthen as investors seek diversification, liquidity and protection from financial stress.

So, unlike many assets whose fortunes depend on one dominant economic driver, gold benefits from multiple and often opposing sources of demand. Weakness in one segment or region can frequently be offset by strength elsewhere. That helps explain why gold has historically demonstrated resilience across a wide range of economic environments.





Looking beyond short-term price moves

Gold's performance during the first half of 2026 provides a useful illustration of these dynamics.

The metal briefly traded above US$5,500 an ounce before retreating sharply as markets reassessed interest-rate expectations, the US dollar and geopolitical developments.

Profit-taking after an exceptional rally also contributed to the correction.

Viewed in isolation, those moves might suggest gold's investment case has weakened.

The World Gold Council's 2026 Mid-Year Outlook suggests otherwise. Our analysis indicates that gold's current price broadly reflects today's macroeconomic consensus: moderate global growth, cooling but still elevated inflation, and expectations for only limited additional central bank tightening. Under those assumptions, gold may remain broadly rangebound during the second half of the year.

But markets rarely remain at consensus for long.

A deterioration in growth, renewed geopolitical shocks or a shift towards lower interest-rate expectations could provide renewed support for gold. Equally, stronger growth, higher real yields and improved investor confidence could create additional headwinds. History also suggests that periods of weakness often attract renewed buying from investors, consumers and central banks, helping to stabilise demand.

The point is not that one outcome is more likely than another. It is that gold's role does not depend on accurately predicting any single one.

Diversification when it matters most

For many years portfolio diversification relied heavily on the negative correlation between equities and government bonds. That relationship has become less reliable during periods of elevated inflation.

Recent market episodes have demonstrated that equities and bonds can sometimes fall (and rise) together, reducing the defensiveness of fixed income that many investors have come to expect.

Gold has historically behaved differently.

It has shown low or negative long-term correlation with equities, while also helping preserve purchasing power during periods of sustained inflation and heightened uncertainty. Analysis by the World Gold Council has also shown that even modest strategic allocations to gold can improve long-term portfolio efficiency by increasing risk-adjusted returns within diversified portfolios.

This goes to show that diversification is not simply about owning different assets. It is about owning assets that behave differently when it matters most.

A different question

For decades, the investment debate centred on whether portfolios needed an allocation to gold.

That debate is evolving, not because gold has enjoyed a strong rally, but because the world in which portfolios operate has changed.

Central banks appear to recognise that reality. They are not buying gold because they expect every geopolitical risk to materialise or every macroeconomic forecast to prove wrong. They are buying it because the range of possible outcomes has widened.

Investors may continue debating where gold goes next. The world's central banks appear more focused on how the world is evolving.

Shaokai Fan is Global Head of Central Banks and Head of Asia-Pacific (ex-China), at World Gold Council, a sponsor of Firstlinks. *This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.*

For more articles and papers from World Gold Council, please click here.

Don't underestimate Australia

Anthony Doyle

My recent conversations with clients have become noticeably more negative on Australia.

It feels similar to the 'mortgage cliff' narrative of 2022 and 2023. The risks were spoken about constantly, but the most bearish outcomes did not materialise.

Here are 17 reasons Australia remains an attractive place to invest, and why the economy and markets will prove more resilient than current sentiment suggests.

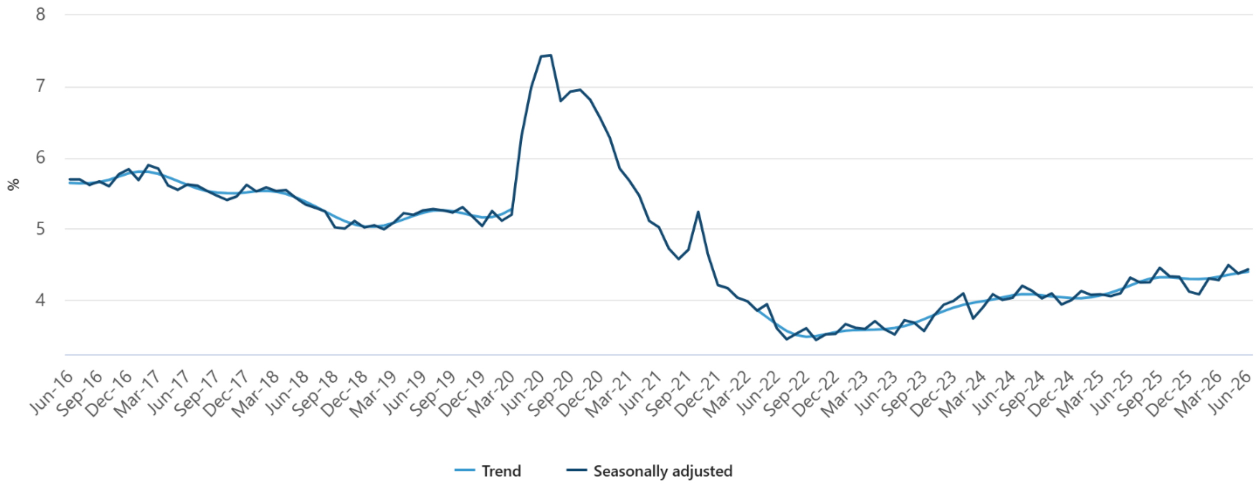
1. The economy is still expanding. Real GDP increased 2.5% over the year to March 2026.

Gross domestic product, chain volume measure, seasonally adjusted

Source: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product March 2026

2. The 4.4% unemployment rate remains well below its long-run average.

Unemployment rate



Large month-to-month changes occurred during the COVID-19 pandemic, resulting in multiple trend breaks. The ABS recommends caution when using trend estimates published in spreadsheets in this release for this period. Information on trend breaks can be found in Labour Force, Australia methodology, June 2026.

Source: Australian Bureau of Statistics, Labour Force, Australia June 2026

3. Mortgage holders are still building savings buffers.

4. Fewer than 1% of variable-rate mortgages are 90+ days in arrears.

5. Household net worth reached approximately A$19.2 trillion in March 2026, increasing by A$225 billion during the quarter.

6. Australian banks remain highly capitalised. Major-bank CET1 ratios remain above 11%, exceeding APRA's 'unquestionably strong' benchmark of 10.5%.

7. High-risk lending is constrained. APRA limits the proportion of new loans that banks can make at debt-to-income ratios of six times or more.

8. Australia has a A$4.4 trillion pool of retirement savings. Superannuation assets increased 7.9% over the year to March 2026, creating a deep and steadily growing source of domestic capital.

9. The Australian dollar acts as a shock absorber. The RBA explicitly identifies this channel as a source of resilience.

10. Australia retains its AAA sovereign rating.

11. Federal net debt remains low relative to most developed economies. Net debt is forecast at 19.9% of GDP in 2026-27.

12. Australian government gross debt to GDP at 51.9% remains below that of every major advanced economy. The average for G7 economies is 123.7%.

13. Australia's population is still growing at 1.5% a year. Population growth supports aggregate consumption, housing demand, infrastructure investment and the tax base.

14. Economy-wide capital investment represented 25.1% of GDP in the March quarter of 2026.

15. Compulsory superannuation creates recurring investment demand. Contributions and investment returns continually add to the domestic savings pool, supporting Australian equities, credit, infrastructure, property and private markets.

16. Resource export income remains historically high and is becoming more diversified. Iron ore remains the largest export earner, but gold exports are forecast to reach approximately A$73 billion in 2026-27, while LNG volumes remain strong.

17. Australia is positioned across several long-term global investment themes. We have material exposure to iron ore, LNG, gold, copper, lithium, nickel, aluminium and critical minerals required for electrification, renewable energy, defence supply chains and data-centre infrastructure.

Don't underestimate Australia!

Anthony Doyle is Chief Investment Strategist at Pinnacle Investment Management Group.